RESULT REVIEW

BUY
TP: Rs 13,451 | ▲ 22%

MARUTI SUZUKI | Automobiles | 30 October 2024

Steady performance; upgrade to BUY on reasonable valuations

- **Q2FY25 revenue was flat YoY (+5% QoQ) in a challenging quarter, realisation improved by 2%/1% YoY/QoQ**
- **Commodity costs inflation impacted gross margin by 140/170bps YoY/QoQ, better cost control restricted EBITDA margin fall**
- **Valuation correction leaves room for upside, continue to value MSIL at 25x P/E with revised TP of Rs 13,451 (from Rs 13,305). Upgrade to BUY**

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Steady topline; realisation gains despite higher discounts is the key: MSIL's Q2FY25 revenue was flat YoY (+5% QoQ) at Rs 372bn in a challenging quarter. This was backed by realisation improvement of 2%/1% YoY/QoQ despite tepid volume growth YoY (4% QoQ). Higher SUV demand continued to drive sales volume of 541.5k units. Average blended realisation/vehicle was Rs 686.9k. MSIL extended higher discounts/vehicle for Q2FY25 (Rs 29.3k vs Rs 21.7k in Q1FY25).

Operating margin under pressure YoY/QoQ: Raw material cost at 71.9% of sales jumped 140bps/170bps YoY/QoQ, lowering gross margin to 28.1%. Other expenditure fell 4.7% YoY (flat QoQ) to Rs 45.7bn. Employee cost was flat YoY, down 50bps QoQ (as % of sales). This and forex gains helped restrict EBITDA fall by ~8% YoY to ~Rs 44.1bn, with margin decline of 90bps YoY/QoQ to 11.9% (-80bps QoQ).

Capacity expansion plans: MSIL commissioned an additional facility at Manesar with the capacity to manufacture 0.1mn units in Q1FY25, increasing the manufacturing capacity at the Manesar facility to 0.9mn/year. MSIL also increased the capacity of Ertiga and the supply of CNG vehicles. MSIL's planned expansion at Kharkhoda (Haryana) with a capacity of 0.25mn vehicles/pa is due to become operational in FY25. MSIL has signed an MoU with the Gujarat government to set up a 1mn unit plant by FY29 and has earmarked Rs 350bn of capex.

Estimates adjusted for tax rate; upgrade to BUY as valuations reasonable: We cut our FY25E/FY26E/FY27E EPS by 1%/2% factoring in the higher tax rate with no change in the operational performance estimates. Our three-year Revenue/ EBITDA/PAT CAGR is healthy at 14%/15%/10%. Our gross margin assumptions hover at ~29% with EBITDA margin of ~12% over FY25E-FY27E. We factor in an upbeat growth outlook backed by MSIL's focus on premiumisation, healthy capex and thrust on electric vehicles (average of 1 EV launch till FY30). We feel the recent correction in valuations leave enough room for uptick. We upgrade our HOLD rating to BUY. We continue to value the stock at 25x P/E 1-year forward earnings, (on par with its 10Y average), leading to a revised TP of Rs 13,451 (Rs 13,305).

Key changes

Target	Rating
▲	▲

Ticker/Price	MSIL IN/Rs 11,046
Market cap	US$ 39.7bn
Free float	44%
3M ADV	US$ 88.0mn
52wk high/low	Rs 13,680/Rs 9,738
Promoter/FPI/DII	56%/23%/16%

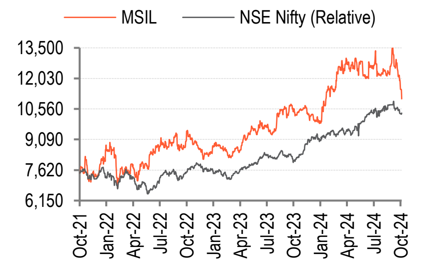
Source: NSE | Price as of 29 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	14,09,326	16,28,760	18,47,013
EBITDA (Rs mn)	1,64,011	1,93,512	2,20,664
Adj. net profit (Rs mn)	1,32,094	1,40,449	1,56,116
Adj. EPS (Rs)	437.3	464.9	516.8
Consensus EPS (Rs)	437.3	484.0	540.9
Adj. ROAE (%)	15.7	14.9	14.7
Adj. P/E (x)	25.3	23.8	21.4
EV/EBITDA (x)	20.3	17.3	15.1
Adj. EPS growth (%)	64.1	6.3	11.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Fig 1 – Earnings call highlights

Parameter	Q2FY25	Q1FY25	Our view
Volumes	MSIL sold 541.5k vehicles during Q2FY25 (volume grew 3.9% QoQ, fell 1.9% YoY). MSIL sold 463.8k units in the domestic market, up 2.8% QoQ while falling 3.9% YoY. Demand for PV remains muted, however UV and LCV segment has shown some positive signs of growth. Per management, the festive period starting from Shradh to Diwali in FY25 has already grown 14% YoY. MSIL expects retail sales to grow in FY25 by 3-4%	MSIL sold 521.8k vehicles during Q1FY25, 4.8% higher YoY. In Q1FY25, sales from the domestic market stood at 451.3k units, up by 3.8% YoY. In the domestic market, the demand for passenger vehicles (PVs) was muted to some extent, largely due to the heatwave and elections that impacted walk-ins.	MSIL continues to focus on a favourable mix. In terms of launches, strong growth in the festive season (14%) will aid FY25 growth beating industry. (mid-single digit). Rural demand transition to premium products is very encouraging.
Margins	In Q2FY25 operating profit margin came down to 10.3% vs 11.1% QoQ. The benefit of reduction in employee expenses by 50bps was offset by the reduction in other income. Since volume increased by 3.9% QoQ, the benefit obtained from operating leverage is about 40-50bps. One-time tax provision of Rs 8.37bn due to withdrawal of indexation benefit and change in tax rate on LTCG as per Finance Act 2024 impacted bottomline.	In Q1FY25, marginal benefits from commodities and products offset increased discounts. Operating income contributed 70bps to margin expansion which includes staff sales, extended warranty income from business, etc. Manufacturing and admin expenses contributed 30bps to margin expansion. Reduction in volume by 10.5%, i.e, 521.8k in Q1FY25 from 584.0k in Q4FY24, had a negative impact of 80bps on operating leverage.	Mild reversal in commodity prices and component shortage of CNG vehicles impacted margins in the short term. However, an increasing share of high-end products will help MSIL retain better product mix and, hence, gross/EBITDA margins.
Discounts	Discounts extended per vehicle for Q2FY25 was Rs 29.3k vs Rs 21.7k in Q1FY25. However, since inventory levels have come down close to 30 days stock, there are indications that MSIL may reduce the discount.	Discounts extended per vehicle for Q1FY25 were at Rs 21.7k compared to Rs 14.5k in Q4FY24.	The higher discount impact was offset by better product mix as reflected in the realisation gains. That is very encouraging in a challenging quarter.
Supply	In Q2FY25 CNG vehicles were 33% of total sales and currently MSIL has 14 models of CNG including the recently launched Epic News Swift model. Further, MSIL will launch 1 EV variant on average in the next 5-6 years.	MSIL increased production capacity of Ertiga as it had a high CNG percentage. MSIL increased the supply of CNG vehicles too.	With limited supply-side constraints in the near future, the launch of EV and variants in the ICE segment, there will be no concerns on growth (will be more secure).
Commodities	Margins have narrowed due to increase in commodity prices and promotional expenses by 50bps and 80 bps, respectively. However favourable forex rate has reduced the impact to some extent.	Gross margins on a QoQ basis improved 90bps, of which 60bps was one-off. Only 30bps improvement was seen as key commodities like steel remained favourable to the extent of about Rs 2.5/kg when compared with Q4FY24 to Q1FY25.	Some negative surprises were expected due to commodity cost inflation in the near term and that have reflected in Q2 gross margins decline for MSIL.
Capacity	The plant in Kharkoda is on track for an additional 0.3mn units of capacity and will be commissioned by the end of FY25.	In Q1FY25, MSIL commissioned an additional facility at Manesar with the capacity to manufacture 0.1mn units. With this the total manufacturing capacity at the Manesar facility will be 0.9mn per annum.	Capacity expansion is key for growth and is being addressed by management. MSIL's focus on the EV segment is a step in the right direction.

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Parameter	Q2FY25	Q1FY25	Our view
	Further the manufacturing facility at Manesar achieved a milestone of cumulative production of 10mn units.		
Exports	Sales volume in the export market in Q2FY25 was 77.7k, up 10%/12% QoQ/YoY. MSIL had a 40% share of India's total passenger vehicle exports in Q2FY25 as well. MSIL managed to sell 200k units of Fronx in 17.3 months and has commenced exports to Japan as well. The royalty payment was at 3.4% of sales. MSIL is setting up hedging to counter exchange rate volatility.	Sales volume in the export market was ~70.56k units, growth of 11.6% YoY from 1QFY24. MSIL had 40% of the share of India's total passenger vehicle exports in Q1FY25. The royalty payment stayed at 3.5% of sales.	Exports still form a relatively small proportion of the topline. Steady exports demand will aid further revenue growth.
Electric Vehicles	MSIL will display its EV Model at the motor show, the auto expo or the Bharat Mobility Show in Jan'25. It's a newly-designed long range EV with a 60kwh battery and will be exported as well to Europe and Japan. MSIL will be launching 1 EV every year on average in the next 5-6 years.	MSIL will display its EV Model at the motor show, the auto expo or the Bharat Mobility Show in Jan'25. MSIL has six electric vehicle (EV) models lined up till 2031 and plans to launch one EV model every year. MSIL has guided for 0.6mn CNG car units for FY25. In Q1FY25, MSIL achieved slightly less than 0.15mn units.	This is in line with the company's long-term guidance of launching EVs by FY25-end.
Other key points	MSIL shall soon achieve inventory levels of 30 days post festive season. MSIL has introduced extended warranty options to cover vehicles for up to six years or 160k kms, whichever is earlier. 100% subsidiary Suzuki Motor Gujarat (SMG) of MSIL will be amalgamated with effective from 1 April 2025, subject to regulatory and legal compliance.	MSIL aims to maintain inventory level of around 30 days. At the end of Q1FY25, the company's inventory level stood at 37 days but it expects levels to be manageable going forward.	No major concerns over maintaining marginally higher inventory as this will be reversed post the festive season.

Source: Company, BOBCAPS Research

Fig 2 – Quarterly performance (Standalone)

(Rs mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Volume (units)	5,41,550	5,52,055	(1.9)	5,21,868	3.8
Avg. Realisation per Vehicle (Rs)	6,86,969	6,71,348	2.3	6,80,850	0.9
Net Revenues	3,72,028	3,70,621	0.4	3,55,314	4.7
Total Income (A)	**3,72,028**	**3,70,621**	**0.4**	**3,55,314**	**4.7**
Operating Expenses:					
Raw materials consumed	2,67,459	2,61,690	2.2	2,49,329	7.3
Employee Expenses	14,688	13,127	11.9	15,576	(5.7)
Other Expenses	45,715	47,962	(4.7)	45,386	0.7
Total Expenditure (B)	**3,27,862**	**3,22,779**	**1.6**	**3,10,291**	**5.7**
EBITDA (A-B)	**44,166**	**47,842**	**(7.7)**	**45,023**	**44,166**
Other Income	14,750	8,436	74.8	9,751	14,750
Depreciation	7,509	7,941	(5.4)	7,310	7,509
EBIT	51,407	48,337	6.4	47,464	51,407
Finance Costs	402	351	14.5	573	402
PBT after excep items	51,005	47,986	6.3	46,891	51,005
Tax expense	20,313	10,821	87.7	10,392	20,313
Reported PAT	**30,692**	**37,165**	**(17.4)**	**36,499**	**30,692**
Adjusted PAT	**30,692**	**37,165**	**(17.4)**	**36,499**	**30,692**
Adj EPS (Rs)	101.6	123.1	(17.4)	120.9	101.6
Key Ratios (%)			**(bps)**		**(bps)**
Gross Margin	28.1	29.4	(128)	29.8	(172)
EBITDA Margin	11.9	12.9	(104)	12.7	(80)
EBIT Margin	13.8	13.0	78	13.4	46
PBT Margin	13.7	12.9	76	13.2	51
Tax Rate	39.8	22.6	1728	22.2	1766
Adj PAT Margin	8.2	10.0	(178)	10.3	(202)

Source: Company, BOBCAPS Research

Valuation methodology

We lower our FY25/FY26/FY27 EPS estimates by 1%/2%, factoring in the higher tax rate with no change in the operational performance estimates. Our three-year Revenue/ EBITDA/PAT CAGR is healthy at 14%/15%/10%. Our gross margin assumptions hover at ~29% with EBITDA margin of ~12% over FY25E-FY27E. We factor in an upbeat growth outlook backed by MSIL's focus on premiumisation, healthy capex and thrust on electric vehicles (on average 1 EV to be launched till FY30). We feel the concerns on discounts and gross margins are for the short term, MSIL's strong launch pipeline across the ICE, EV and CNG segments will cater to growth by guarding margins.

We feel the recent correction in valuations will leave enough room for uptick. Hence, we upgrade our HOLD rating to BUY on MSIL. We continue to value the stock at 25x P/E 1-year forward earnings, (par with its 10Y average), leading us to revise TP to Rs 13,451 (from Rs 13,305).

Fig 3 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	16,28,760	18,47,013	21,09,058	16,28,760	18,47,013	NA	(0.0)	0.0	0.0
EBITDA	1,93,512	2,20,664	2,47,052	1,93,512	2,20,664	NA	0.0	0.0	0.0
Adj PAT	1,40,449	1,56,116	1,75,438	1,42,362	1,59,169	1,78,419.0	(1.3)	(1.9)	(1.7)
Adj EPS (Rs)	464.9	516.8	580.8	471.3	526.9	590.6	(1.3)	(1.9)	(1.7)

Source: BOBCAPS Research

Fig 4 – Key assumptions

Parameter	FY24	FY25E	FY26E	FY27E
Volume (nos)	20,64,472	23,27,502	25,13,702	27,33,651
ASP (Rs)	6,66,465	6,99,789	7,34,778	7,71,517
Revenues (Rs mn)	14,09,326	16,28,760	18,47,013	21,09,058
EBITDA (Rs mn)	1,64,011	1,93,512	2,20,664	2,47,052
Operating margin (%)	11.6	11.9	11.9	11.7
Adjusted Net Profit (Rs mn)	1,32,094	1,40,449	1,56,116	1,75,438
Adjusted EPS (Rs)	437	465	517	581

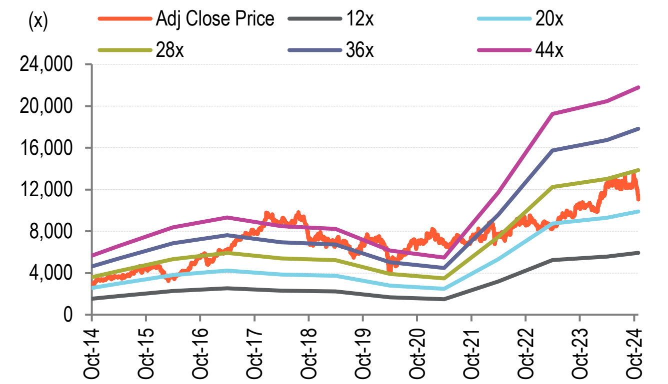
Source: Company, BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY26E	FY27E	FY25E	FY26E
Maruti Suzuki	MSIL IN	BUY	13,451	517	581	15.6	15.6
Mahindra & Mahindra	MM IN	BUY	3,279	118.8	129.7	21.1	19.4

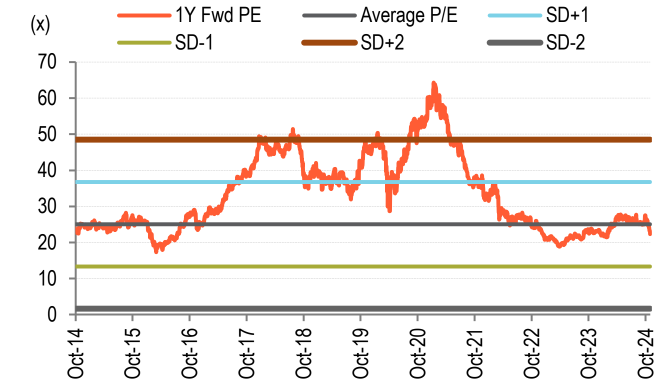
Source: BOBCAPS Research

Fig 6 – P/E band: We value MSIL at 25x 1Y forward EPS



Source: Company, Bloomberg, BOBCAPS Research

Fig 7 – P/E 1Y fwd: The valuation is at mean average



Source: Company, Bloomberg, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- intense competitive pressure leading to higher discounts/price cuts,
- commodity inflation gaining pace faster than expected, and
- delays in model launches in various segments, including CNG and electric vehicles.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	**11,75,229**	**14,09,326**	**16,28,760**	**18,47,013**	**21,09,058**
EBITDA	1,10,077	1,64,011	1,93,512	2,20,664	2,47,052
Depreciation	28,233	30,223	32,407	42,240	47,476
EBIT	1,03,457	1,72,336	1,88,915	2,09,985	2,35,157
Net interest inc./(exp.)	(1,866)	(1,932)	(1,649)	(1,831)	(1,239)
Other inc./(exp.)	21,613	38,548	27,810	31,561	35,581
Exceptional items	0	0	0	0	0
EBT	1,01,591	1,70,404	1,87,266	2,08,154	2,33,918
Income taxes	21,099	38,310	46,816	52,039	58,479
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**80,492**	**1,32,094**	**1,40,449**	**1,56,116**	**1,75,438**
Adjustments	0	0	0	0	0
Adjusted net profit	**80,492**	**1,32,094**	**1,40,449**	**1,56,116**	**1,75,438**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	1,51,982	1,88,798	2,06,574	2,36,207	2,69,719
Other current liabilities	27,163	27,914	44,247	52,627	60,944
Provisions	10,500	13,514	3,597	3,957	4,352
Debt funds	38,322	32,802	34,399	24,371	17,344
Other liabilities	0	0	0	0	0
Equity capital	1,510	1,572	1,510	1,510	1,510
Reserves & surplus	6,02,311	8,38,249	9,42,927	10,58,040	11,86,504
Shareholders' fund	6,03,821	8,39,821	9,44,437	10,59,550	11,88,014
Total liab. and equities	**8,31,788**	**11,02,849**	**12,33,254**	**13,76,711**	**15,40,372**
Cash and cash eq.	377	4,600	13,384	9,075	19,375
Accounts receivables	32,958	46,013	40,719	47,099	53,781
Inventories	42,838	41,196	65,150	74,804	85,417
Other current assets	55,324	65,019	68,662	76,133	84,125
Investments	4,77,564	6,85,137	7,41,015	8,37,015	9,42,015
Net fixed assets	1,78,938	1,87,258	2,24,851	2,42,611	2,55,135
CWIP	28,081	63,034	65,000	75,000	85,000
Intangible assets	0	0	0	0	0
Deferred tax assets, net	3,411	1,124	5,006	5,507	6,058
Other assets	12,296	9,467	9,467	9,467	9,467
Total assets	**8,31,787**	**11,02,848**	**12,33,254**	**13,76,711**	**15,40,372**

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	**91,473**	**1,43,761**	**1,45,287**	**1,79,831**	**2,03,032**
Capital expenditures	(68,785)	(73,496)	(71,966)	(70,000)	(70,000)
Change in investments	(69,931)	(2,07,573)	(55,878)	(96,000)	(1,05,000)
Other investing cash flows	21,613	38,548	27,810	31,561	35,581
Cash flow from investing	**(1,17,103)**	**(2,42,521)**	**(1,00,034)**	**(1,34,439)**	**(1,39,419)**
Equities issued/Others	0	1,28,405	(62)	0	0
Debt raised/repaid	12,322	(5,520)	1,597	(10,029)	(7,027)
Interest expenses	(1,866)	(1,932)	(1,649)	(1,831)	(1,239)
Dividends paid	(18,125)	(27,187)	(38,062)	(43,390)	(49,465)
Other financing cash flows	(1,384)	2,287	(3,882)	(501)	(551)
Cash flow from financing	**(9,053)**	**96,053**	**(42,058)**	**(55,751)**	**(58,282)**
Chg in cash & cash eq.	**(34,683)**	**(2,707)**	**3,195**	**(10,359)**	**5,331**
Closing cash & cash eq.	**377**	**4,600**	**13,384**	**9,075**	**19,375**

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	266.5	437.3	464.9	516.8	580.8
Adjusted EPS	266.5	437.3	464.9	516.8	580.8
Dividend per share	60.0	90.0	126.0	143.6	163.7
Book value per share	1,998.9	2,780.1	3,126.4	3,507.5	3,932.8

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	2.8	2.4	2.1	1.8	1.6
EV/EBITDA	30.0	20.3	17.3	15.1	13.5
Adjusted P/E	41.5	25.3	23.8	21.4	19.0
P/BV	5.5	4.0	3.5	3.1	2.8

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	79.2	77.5	75.0	75.0	75.0
Interest burden (PBT/EBIT)	98.2	98.9	99.1	99.1	99.5
EBIT margin (EBIT/Revenue)	8.8	12.2	11.6	11.4	11.1
Asset turnover (Rev./Avg TA)	194.4	186.1	175.9	179.1	184.3
Leverage (Avg TA/Avg Equity)	1.1	1.0	1.0	1.0	1.0
Adjusted ROAE	14.1	18.3	15.7	15.6	15.6

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	33.1	19.9	15.6	13.4	14.2
EBITDA	93.1	49.0	18.0	14.0	12.0
Adjusted EPS	113.7	64.1	6.3	11.2	12.4
Profitability & Return ratios (%)					
EBITDA margin	9.4	11.6	11.9	11.9	11.7
EBIT margin	8.8	12.2	11.6	11.4	11.1
Adjusted profit margin	6.8	9.4	8.6	8.5	8.3
Adjusted ROAE	14.1	15.7	14.9	14.7	14.8
ROCE	13.5	17.4	15.2	15.1	15.3
Working capital days (days)					
Receivables	8	10	10	9	9
Inventory	12	11	12	14	14
Payables	60	62	63	62	62
Ratios (x)					
Gross asset turnover	0.3	0.3	0.3	0.3	0.3
Current ratio	0.7	0.7	0.7	0.7	0.7
Net interest coverage ratio	(55.4)	(89.2)	(114.6)	(114.7)	(189.8)
Adjusted debt/equity	0.1	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

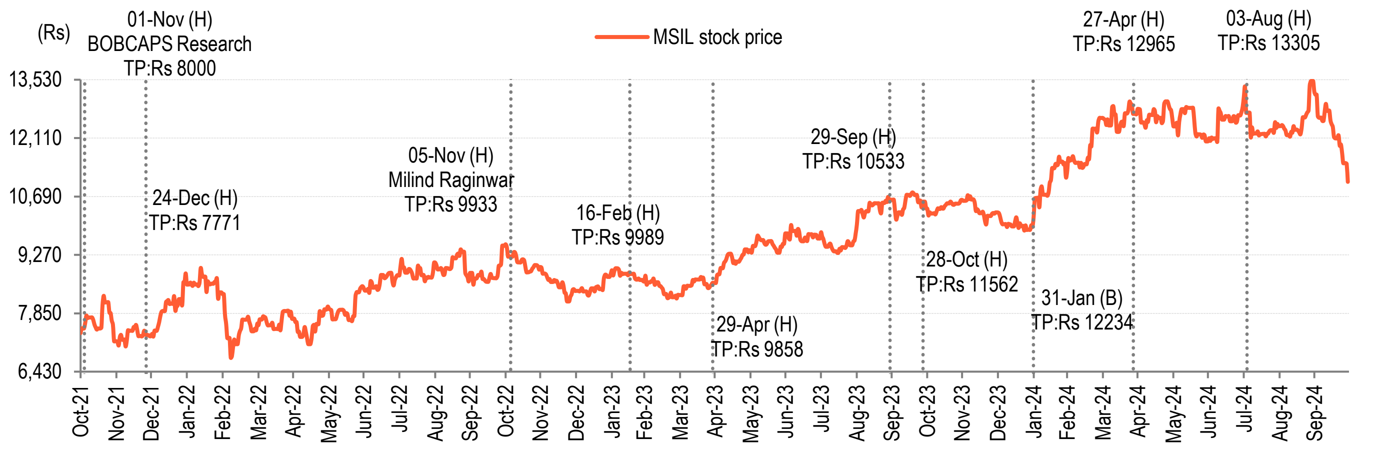
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): MARUTI SUZUKI (MSIL IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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